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BELLSOUTH

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EX PARTE

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November 13, 1992

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Ms. Donna A. Searcy
Secretary
1919 "M" Street N.W., Room 222
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: CC Docket No. 92-101

Dear Ms. Searcy:

Today, Pat Major, Frances Dennis, Bob Scheye and the undersigned representing BellSouth Corporation met with Brian Fontes, Special Advisor, and Lauren Belvin, Legal Advisor to Commissioner James H. Quello to discuss BellSouth's position in the above-referenced docket. A paper outlining the key points discussed during the meeting is attached.

Please call me if you have any questions.

Sincerely,

Maurice P. Talbot, Jr.

Maurice P. Talbot, Jr
Director - Federal Regulatory

Attachment

cc: Brian Fontes
Lauren Belvin

041

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OVERVIEW OF SFAS 106

- The FASB issued SFAS 106 in December 1990. This accounting standard requires employers to change their accounting method for postretirement benefits from the pay-as-you-go basis that most employers use today to an accrual basis. This change must be made no later than the fiscal year that begins after December 15, 1992.
- Postretirement benefits are any benefit provided to employees and their dependents after retirement. The most prevalent postretirement benefits provided are health and life benefits.
- In issuing this standard, the FASB acknowledges the fact that postretirement benefits are a form of deferred compensation that should be recognized as an expense by the employer as the benefits are earned rather than when they are paid.
- Under the accrual method, by the date an employee is fully eligible for the benefits, the employer has accumulated a liability on its balance sheet equal to the present value of all cash outflows expected to occur after that employee retires.
- A major component of implementing SFAS 106 is the determination of the transition benefit obligation (TBO) amount. The TBO represents the unrecognized postretirement obligation that has accumulated at the date of adoption. This is the amount that employees and retirees have earned but that employers have not yet expensed.
- SFAS 106 requires the use of actuarial assumptions and techniques in calculating the TBO as well as in calculating the ongoing SFAS 106 costs. Many of the assumptions used are similar to those used in calculating pension costs.
- In its December 26, 1991 order, the FCC adopted GAAP accounting for OPEBs for all carriers.
- BellSouth has calculated the OPEB accrual amount in accordance with the standard. BellSouth's exogenous adjustment is based on this amount.

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Two Critical Issues:

- **Is SFAS 106 Exogenous?**
- **If exogenous what method should be used to determine the amount?**

BellSouth's Exogenous Amount Is Small Because:

- **Type of plan assumed**
 - **BellSouth assumed written plan (estimated at less than 1.0 million) vs. substantive plan (estimated at \$13.6 million)**
- **Pre-SFAS 106 accounting practice**

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Proposals discussed relating to the exogenous treatment of SFAS 106 costs

- **AT&T's proposal outlined in the September 2 ex parte**
 - **Suggests common actuarial assumptions for all LECs**
 - **Suggests smaller exogenous percentage (i.e., 0% - 68%)**
 - **Results range from \$0 - \$32 million**
- **Various proposals that components of OPEBs be excluded from exogenous consideration (e.g., the TBO)**
- **US West's annual true-up proposal**

Key Considerations of Proposals

- **Positive Considerations**
 - **All are prospective**
 - **All recognize some positive exogenous treatment**
- **Negative Considerations**
 - **Some cannot be applied across all companies**
 - **Some can lead to unintended results**
- **BellSouth opposes all proposals that modify the SFAS 106 amount**

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BellSouth's Overall Conclusions:

- **SFAS 106 adoption is an exogenous event**
- **The only possible area of double count is through the GNP-PI**
- **The only modification to the exogenous adjustment that is appropriate is the GNP adjustment**
- **Attempting to modify SFAS 106 amounts will lead to unintended results**
- **Must consider carefully each company's circumstances**